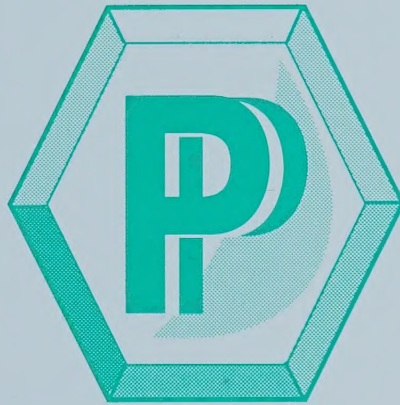


AR60

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

PRISM PETROLEUM LTD.



Annual
Report
1995

Corporate Profile

Prism Petroleum Ltd., (formerly HTS Company Ltd.), is an emerging petroleum and natural gas exploration, development and production company. HTS Company Ltd. incorporated in 1993, was amalgamated with its wholly owned subsidiary Prism Petroleum Ltd. on December 31, 1995 under the name of Prism Petroleum Ltd. Headquartered in Calgary, Alberta, the corporation is well-positioned to execute its low-risk exploration and development strategy targeted at the Central Alberta Area of the Western Canadian Sedimentary Basin.

Prism Petroleum Ltd. is a publicly-traded Alberta Stock Exchange reporting issuer with a total 28,599,314 common voting shares outstanding. The trading symbol is "PIM".



Abbreviations & Terms

bbl	barrel
bbl/d	barrels per day
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
boe	barrel oil equivalent (1 boe = 10 mcf)
boe/d	barrels of oil equivalent per day
NGL	natural gas liquids
mbbl	thousand barrels
mboe	thousand barrels oil equivalent

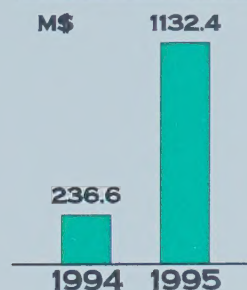
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FINANCIAL (\$)

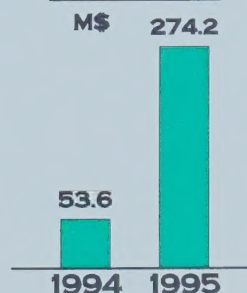
	Years Ended December 31,	
	1995	1994
Gross revenues	1,132,402	236,564
Cash flow from operations	274,186	53,612
Per share	0.010	0.006
Per boe produced	3.83	4.45
Net loss	207,481	27,920
Per share	0.007	0.003
Capital expenditures	400,943	5,155,324
Total assets	5,409,154	5,596,970
Long-term debt	699,990	699,990
Shareholders' equity	4,358,590	4,556,071

GROSS REVENUE



Outstanding common shares	28,599,314	28,499,314
---------------------------	------------	------------

CASH FLOW



OPERATING

Daily production rates

Gas	mcf/d	1,210	195
Oil	bbl/d	36	9
NGL	bbl/d	39	4
Equivalents	boe/d	196	33

Reserves

Gas	mmcf	7,192	6,869
Oil	mbbl	97	118
NGL	mbbl	89	79
Equivalents	mboe	905	889

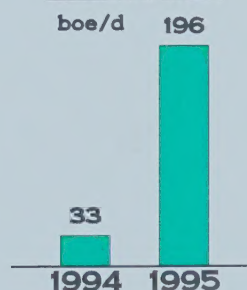
Land holdings - acres

Gross	87,320	87,720
Net	20,990	19,201

Well Ownership

Gross	95	94
Net	22.4	19.6

PRODUCTION



ANNUAL MEETING

The Annual Meeting of the common shareholders of Prism Petroleum Ltd. will be held on Tuesday, May 21, 1996 at 10:00 a.m. in the Cardium A & B Rooms, Calgary Petroleum Club, 319 5th Avenue, S.W., Calgary, Alberta.

Chairman's Report

1995 was an eventful year for Prism Petroleum Ltd., and marked the first full year of our ownership of the major properties acquired in 1994.

In accordance with a resolution passed at the last shareholder's meeting, HTS Company Ltd. was amalgamated with its wholly owned subsidiary Prism Petroleum Ltd. effective December 31, 1995, and the name of the company was changed to Prism Petroleum Ltd.

Prism set new records in most all operating and financial categories. 1995 was disappointing in many respects due to the severe slump in natural gas prices which reduced cash flow and earnings significantly, and reduced the amount of development and exploration activity in which Prism could participate.


Even with the low price environment, Prism's cash flow increased to \$274,200; net borrowing was held well within our approved credit limits; reserves were increased, (proven reserve additions surpassed production by 22%); and production volumes were maintained.

1996 results are expected to show substantial improvement over the past year:

- Natural gas previously sold on the Alberta spot markets has been dedicated to firm long-term contracts.
- Pricing of natural gas for all of Prism's contracts is expected to show significant improvement in 1996 and future years.
- Planned development programs should result in increased production volumes of at least 20 percent in the coming year.
- Administrative expenses are expected to decrease with start-up costs behind us and the amalgamation of HTS and Prism providing a more streamlined operation.

Mr. W.E. (Ted) Heaver retired as a director at the end of 1995 but will continue to be available to Prism on an ongoing consulting basis. His expertise and counsel have been and will continue to be extremely valuable in the growth and operation of the company.

I would like to express my appreciation to the staff and directors for their dedicated efforts in achieving the company's success. We are very proud that Prism has established a solid foundation for future growth, and look forward to the challenges to be met in achieving significant improvements in the coming year.



H.S. (Scobey) Hartley
Chairman of the Board
and Chief Executive Officer

March 29, 1996

PRODUCTION

Production for the year averaged 1.21 million cubic feet per day of natural gas and 75 barrels per day of crude oil and natural gas liquids for a combined total of 196 barrel equivalents per day, a 494 percent increase over 1994 production volumes.

Prism's 1995 production rates were lower than anticipated due to the cut back and/or shut-in of some properties and the deferral of several development projects due to abnormally low natural gas prices prevailing for much of the year. The company's operating staff are to be congratulated for continuing to operate the properties to high standards of safety and environmental management during a very difficult pricing environment.

1996 sales volumes are expected to increase by at least 20 percent from 1995 rates due to anticipated development drilling programs at Provost, and the tie in and start up of several shut-in gas wells.

Subsequent to year end, Prism entered into a firm sales contract for approximately 40 percent of its projected natural gas production previously sold in the spot market. 1996 pricing under this new contract is expected to be approximately double the low spot prices received in the summer and fall of 1995. As a result of this action, virtually all of Prism's natural gas production, including wells projected for tie in this year, is under long term contract. Prism expects the pricing of all of its contracted gas to increase significantly over the next few years as natural gas markets strengthen.

RESERVES

Proven reserves to Prism's interest at December 31, 1995 were 6.180 billion cubic feet of natural gas, 96,700 barrels of crude oil and 87,700 barrels of natural gas liquids, for a combined total of 802,400 barrel equivalents. Property acquisitions and successful recompletions in the Provost and Auburndale areas are primarily responsible for the two percent increase over the previous year. 1995 proven reserve additions exceeded annual production volumes by 22 percent. The remaining proven reserve life at Prism's 1995 producing rate is equal to 11.3 years. 65 percent of the company's proven reserves are located at Provost, and 20 percent are located at Willesden Green.

Proven plus 50% of probable reserves to Prism's interest also increased by two percent to 905,300 barrel equivalents at year end. This equates to a 12.7 year remaining reserve life at 1995 production rates.

LAND

Prism's land holdings at December 31, 1995 totalled 87,320 gross acres, (20,990 net), all of which are located in Alberta. Undeveloped holdings totalled 11,370 gross acres, (2,656 net). Acquisitions were made during the year in the Provost, Auburndale and Gilwood areas, while some undeveloped lands in outlying areas were allowed to expire.

Prism's objectives are to continue to focus on key areas of western Canada, to increase working interests in core areas, and to continue to operate a substantial proportion of its properties.

Review Of Operations

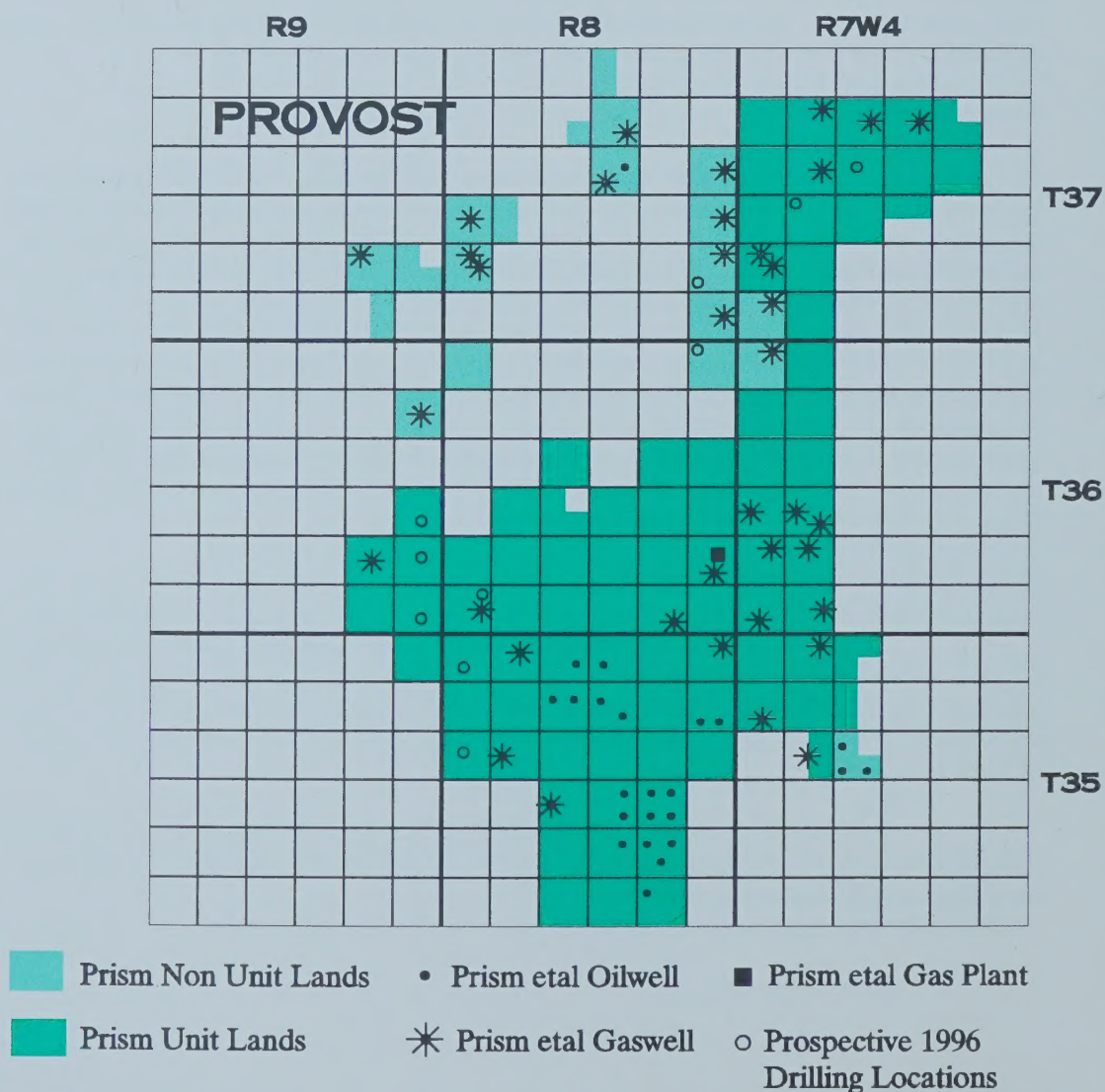
OPERATIONS

At year end, Prism held interests in 95 wells in Alberta, (22.4 net), 63 of which, (19.5 net), are operated by the company.

During 1995, the company acquired additional interests in twelve gas wells at Provost and one gas well at Auburndale and participated in one dry hole at Gilwood. Four shut-in gas wells were successfully completed and tied in at Provost. The acquisitions and tie ins plus several minor workovers resulted in an 8 percent overall increase in boe production at Provost over 1994 year end production rates.

Development plans for the next few years include the drilling of up to twenty infill gas wells at Provost, as well as acquisition of additional interests in the area. Custom processing of adjoining reserves is also expected to increase as gas prices improve.

During 1996, the company intends to recomplete and tie in three suspended gas wells in the Provost, Auburndale and Richdale areas, to drill and tie in from five to ten infill development wells at Provost, and to continue exploration in the Gilwood area; all of which will be funded from Prism's cash flow.

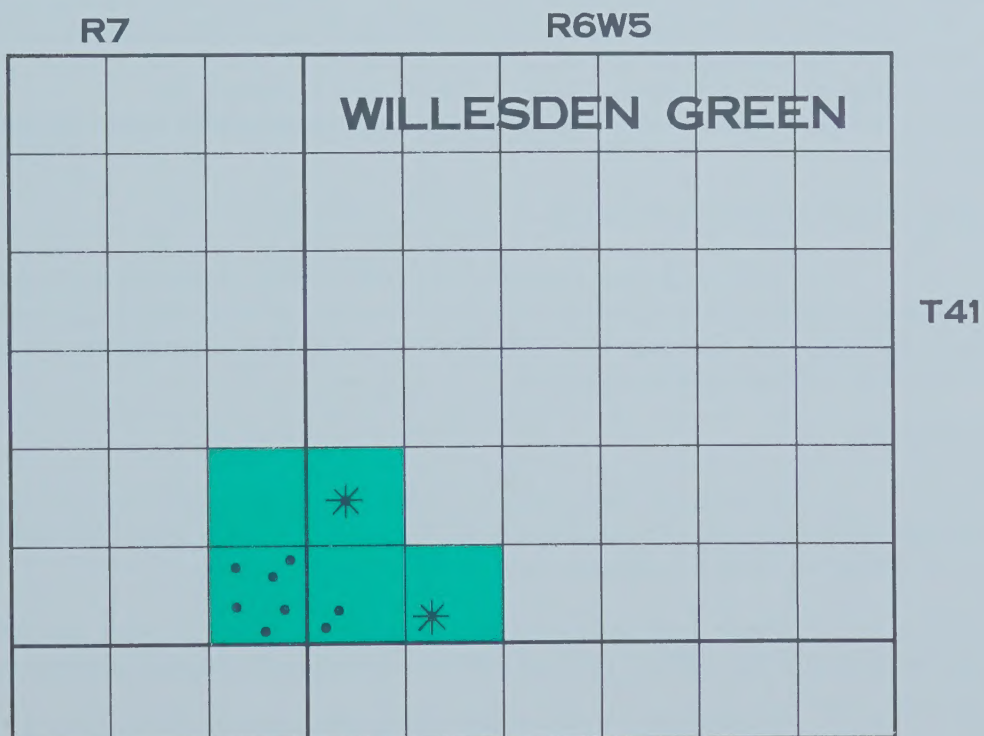


1995 PRODUCTION RATES

	Gas mcf/d	Oil bbl/d	NGL bbl/d	Barrel Equivalents bbl/d
Provost	749	27	3	105
Willesden Green	366	3	35	75
Taber	52	-	-	5
Twining	9	4	-	5
Others	<u>34</u>	<u>2</u>	<u>1</u>	<u>6</u>
TOTAL	<u>1,210</u>	<u>36</u>	<u>39</u>	<u>196</u>

1994 PRODUCTION RATES

	Gas mcf/d	Oil bbl/d	NGL bbl/d	Barrel Equivalents bbl/d
Provost	71	3	-	10
Willesden Green	39	1	4	9
Taber	45	-	-	4
Twining	4	2	-	3
Others	<u>36</u>	<u>3</u>	<u>-</u>	<u>7</u>
TOTAL	<u>195</u>	<u>9</u>	<u>4</u>	<u>33</u>



Management's Discussion And Analysis

The following discussion and analysis of operating results and financial condition should be read in conjunction with the financial statements commencing on page 9 of this report.

REVENUE

Gross revenues from petroleum and natural gas sales before royalties increased 379 percent to \$1,132,402, reflecting a full year's ownership of the former Cayenne and Prism properties. Approximately 52 percent of revenues were derived from sales of natural gas, 29 percent from crude oil and 19 percent from natural gas liquids. Average prices received from crude oil and NGL sales decreased 24 percent from the previous year to \$19.49/bbl. while natural gas prices decreased by 12 percent to \$1.27/mcf. On a barrel equivalent basis, the average realization from 1995 sales was \$15.83/boe, a 19.4 percent decline from \$19.64/boe received the previous year.

ROYALTIES

Royalties paid totalled \$68,208 net of ARTC rebates of \$51,568 for an average rate of 6.0 percent of sales revenues. Average royalty cost in 1995 was \$0.95/boe compared to \$1.26/boe in the prior year.

EXPENSES

Lease operating expenses totalled \$509,803 or \$7.13/boe compared to \$53,262 or \$4.42/boe the previous year. Operating expenses on a unit basis were negatively impacted by decreased sales volumes from properties having a large component of fixed costs.

General and administrative expenses, net of recoveries and interest charges, totalled \$205,272 or \$2.87/boe. This is a substantial improvement over 1994 costs of \$8.98/boe, reflecting a full year's ownership of the Cayenne and Prism properties. Gross general and administrative expenses not including interest, totalled \$355,805 in 1995, while overhead recoveries amounted to \$150,553.

Interest and financing costs incurred during 1995 totalled \$74,933 or \$1.05/boe.

CASH FLOW FROM OPERATIONS

Cash flow from operations for 1995 totalled \$274,186, a 411 percent increase compared to \$53,612 the previous year. On a unit of production basis, cash flow from operations for 1995 was \$3.83/boe, down from \$4.45/boe the previous year due primarily to reduced natural gas prices.

EARNINGS

Depletion and amortization of the company's assets was calculated to be \$464,727 for the year compared to \$78,532 in 1994. Depletion costs were \$462,350 or \$6.46/boe reflecting the carrying costs of proven reserves only.

Prism paid no current income taxes nor made provision for deferred income taxes in either 1995 or 1994, as available deductions exceeded taxable income.

Prism incurred a loss of \$207,481 in 1995 compared to a loss of \$27,920 the previous year.

CAPITAL EXPENDITURES

Capital expenditures for 1995 totalled \$400,943, a significant decrease from prior year expenditures of \$5,155,324 used primarily for the Cayenne and Prism acquisitions.

1995 expenditures were divided \$214,215 to exploration, drilling and completion, \$85,228 for property acquisitions, and \$101,500 for production facilities.

1995 expenditures excluding prior years adjustments and capitalized overhead resulted in proven reserve additions of 87,200 barrel equivalents at a unit cost of \$3.80/boe.

LIQUIDITY AND DEBT

At December 31, 1995, Prism had a net short term indebtedness of \$159,005, provided from its revolving line of credit facility, compared to working capital of \$80,594 at December 31, 1994.

Prism's long term debt of \$699,990 exists in the form of a debenture, and is unchanged from the previous year.

The interest rate charged on both of the foregoing instruments is at prime plus 1.5 percent.

OUTLOOK

Prism expects to realize significant growth in 1996. Cash flow is expected to increase significantly due to improved natural gas pricing and increased sales volumes. G & A costs on a unit of production basis are also expected to improve significantly in the coming year. Firm development and acquisition programs will be funded from cash flow and the company's revolving line of credit.

The company also intends to pursue additional growth opportunities through acquisition, exploration and development, which would be funded from external sources.

Management's Report

The financial statements of Prism Petroleum Ltd. were prepared by management within acceptable limits of materiality in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this annual report is consistent with that shown in the financial statements.

The financial statements have been prepared in accordance with the accounting policies as described in the notes to the financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgements made by management.

Management has designed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records are properly maintained to facilitate the preparation of financial statements for reporting purposes.

External auditors appointed by the shareholders, have conducted an examination of the corporate and accounting records in order to express their opinion on the financial statements. The Audit Committee, has met with the auditors and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors has approved the financial statements on the recommendation of the audit committee.



Douglas H. Church
President

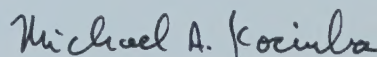
Auditor's Report To The Shareholders

To the Shareholders of
Prism Petroleum Ltd.
(formerly HTS Company Ltd.)

I have audited the balance sheets of Prism Petroleum Ltd. (formerly HTS Company Ltd.) as at December 31, 1995 and 1994 and the statements of loss and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



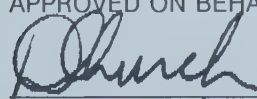
CHARTERED ACCOUNTANT

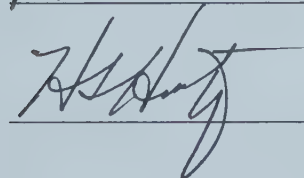
CALGARY, Alberta
February 14, 1996.

PRISM PETROLEUM LTD.
(FORMERLY HTS COMPANY LTD.)
BALANCE SHEETS
DECEMBER 31, 1995 AND 1994

	<u>1995</u>	<u>1994</u>
<u>ASSETS</u>		
CURRENT		
Cash	\$ 30,527	\$ 80,594
Accounts receivable and accruals	146,143	254,475
Alberta royalty tax credit receivable	51,568	9,615
Deposits and prepaids	<u>169,448</u>	<u>177,034</u>
	397,686	521,718
PETROLEUM AND NATURAL GAS PROPERTIES (Note 3)	<u>5,011,468</u>	<u>5,075,252</u>
	<u>\$ 5,409,154</u>	<u>\$ 5,596,970</u>
<u>LIABILITIES</u>		
CURRENT		
Bank indebtedness (Note 4)	\$ 189,532	\$ -
Accounts payable and accrued liabilities	<u>141,102</u>	<u>337,909</u>
	<u>330,634</u>	<u>337,909</u>
LONG-TERM DEBT (Note 5)	<u>699,990</u>	<u>699,990</u>
PROVISION FOR SITE RESTORATION COSTS	<u>19,940</u>	<u>3,000</u>
<u>SHAREHOLDERS' EQUITY</u>		
CAPITAL STOCK (Note 6)	4,602,543	4,592,543
DEFICIT	<u>(243,953)</u>	<u>(36,472)</u>
	<u>4,358,590</u>	<u>4,556,071</u>
	<u>\$ 5,409,154</u>	<u>\$ 5,596,970</u>

APPROVED ON BEHALF OF THE BOARD

 Director

 Director

PRISM PETROLEUM LTD.
(FORMERLY HTS COMPANY LTD.)
STATEMENTS OF LOSS AND DEFICIT
YEARS ENDED DECEMBER 31, 1995 AND 1994

	<u>1995</u>	<u>1994</u>
REVENUES		
Oil and gas, net of royalties	\$ 1,012,626	\$ 211,720
Alberta royalty tax credits	<u>51,568</u>	<u>9,615</u>
	<u>1,064,194</u>	<u>221,335</u>
EXPENSES		
Operating costs	509,803	53,262
Depletion and amortization	464,727	78,532
General and administrative	209,050	108,209
Interest on long-term debt	71,155	6,252
Site restoration costs	<u>16,940</u>	<u>3,000</u>
	<u>1,271,675</u>	<u>249,255</u>
LOSS FOR THE YEAR	(207,481)	(27,920)
DEFICIT, BEGINNING OF YEAR	<u>(36,472)</u>	<u>(8,552)</u>
DEFICIT, END OF YEAR	<u>\$ (243,953)</u>	<u>\$ (36,472)</u>
Basic Loss Per Share	<u>\$ (0.007)</u>	<u>\$ (0.003)</u>

PRISM PETROLEUM LTD.
(FORMERLY HTS COMPANY LTD.)
STATEMENTS OF CHANGES IN FINANCIAL POSITION
YEARS ENDED DECEMBER 31, 1995 AND 1994

	<u>1995</u>	<u>1994</u>
OPERATING ACTIVITIES		
Loss for the year	\$(207,481)	\$(27,920)
Items not affecting cash		
Depletion and amortization	464,727	78,532
Provision for site restoration costs	<u>16,940</u>	<u>3,000</u>
	274,186	53,612
Net changes in non-cash working capital balances related to operations (*)	<u>(122,842)</u>	<u>(106,513)</u>
	<u>151,344</u>	<u>(52,901)</u>
FINANCING ACTIVITIES		
Issue of capital stock, net of issue costs	10,000	3,219,978
Proceeds of long-term debt	-	699,990
Issue of capital stock for subsidiary companies	-	600,000
Issue of capital stock for petroleum and natural gas properties	<u>-</u>	<u>566,530</u>
	<u>10,000</u>	<u>5,086,498</u>
INVESTING ACTIVITIES		
Acquisition of petroleum and natural gas properties	(400,943)	(842,199)
Proceeds from sale of petroleum and natural gas properties	-	57,300
Acquisition of notes payable	-	(1,339,320)
Acquisition of subsidiaries	<u>-</u>	<u>(2,973,805)</u>
	<u>(400,943)</u>	<u>(5,098,024)</u>
DECREASE IN CASH	(239,599)	(64,427)
CASH, BEGINNING OF YEAR	<u>80,594</u>	<u>145,021</u>
CASH (BANK INDEBTEDNESS), END OF YEAR	<u>\$(159,005)</u>	<u>\$ 80,594</u>
CASH (BANK INDEBTEDNESS) IS COMPRISED OF		
Cash	\$ 30,527	\$ 80,594
Bank indebtedness	<u>(189,532)</u>	<u>-</u>
	<u>\$(159,005)</u>	<u>\$ 80,594</u>
* Net changes in non-cash working capital		
Accounts receivable and accruals	\$ 108,332	\$(250,104)
Alberta royalty tax credit receivable	(41,953)	(9,615)
Deposits and prepaids	7,586	(177,034)
Due from related party	-	1,992
Accounts payable and accrued liabilities	<u>(196,807)</u>	<u>328,248</u>
	<u>\$(122,842)</u>	<u>\$(106,513)</u>

PRISM PETROLEUM LTD.
(FORMERLY HTS COMPANY LTD.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

1. SUMMARY OF ACCOUNTING POLICIES

a) Petroleum and Natural Gas Properties and Related Depletion and Amortization

The Company follows the full cost method of accounting under which all costs related to the exploration for and development of petroleum and natural gas properties are capitalized into a single Canadian cost centre. Such costs include land acquisition costs, geological and geophysical expenses, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells, and related overhead charges.

The costs related to a cost centre from which there is production, together with the costs of production equipment, are depleted and amortized on the unit of production method based on the estimated proven reserves as determined by independent reservoir engineers. Natural gas reserves and production are converted into equivalent barrels of oil based upon the relative energy content.

Costs directly associated with the acquisition and evaluation of unproved properties are initially excluded from the computation of depletion. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to all other capitalized costs which are depleted.

In applying the full cost method, the Company calculates a ceiling test which restricts the capitalized costs less accumulated depletion and amortization from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, after deducting estimated future general and administrative expenses, future removal and site restoration costs, financing costs and income taxes, all undiscounted and unescalated. Should this calculation indicate an excess carrying value, a write-down would be recorded. Where the ultimate recoverable amount is less than the capitalized costs and the deficiency is related to significant acquisitions within the last 24 months, and is not permanent, a write-down of petroleum and natural gas properties is not required.

Sales of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized, unless such adjustments would significantly alter the rate of depletion and amortization by more than twenty percent.

b) Other Capital Assets and Related Amortization

The Company provides for amortization on other capital assets using the declining balance method at an annual rate of 20%.

c) Joint Ventures

Substantially all of the Company's exploration and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

d) Site Restoration Costs

Estimated future removal and site restoration costs, net of expected recoveries, are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Company's engineers based on current regulations, costs, technology and industry standards. Removal and site restoration expenditures will be charged to the accumulated provision account as incurred.

e) Income Taxes

The Company follows the tax allocation method of accounting for corporate income taxes. Deferred taxes are provided to the extent that current taxes have been reduced by claiming amounts, primarily exploration and development costs and capital cost allowance, in excess of the related depletion and amortization recorded in the financial statements.

f) Loss Per Share

Loss per share information is calculated on the basis of the weighted average number of common shares outstanding during the year.

PRISM PETROLEUM LTD.
(FORMERLY HTS COMPANY LTD.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

2. ACQUISITIONS

On November 24, 1994, the Company acquired all of the issued and outstanding shares of three private oil and gas companies carrying on business in the province of Alberta and a wholly-owned operating subsidiary company of the three companies, Prism Petroleum Ltd. The acquisition has been accounted for using the purchase method. Accordingly, the results of operations of the three companies since the date of acquisition are included in these financial statements. The total purchase price has been allocated on fair values as follows:

Consideration	
Cash	\$ 1,673,815
Debentures	699,990
Capital stock	<u>600,000</u>
	\$ 2,973,805
Net assets acquired	
Net working capital	\$ 11,053
Other assets	458
Petroleum and natural gas properties and equipment	4,301,614
Notes payable	<u>(1,339,320)</u>
	\$ 2,973,805

On November 25, 1994, the three subsidiary companies amalgamated with the Company.

On December 31, 1995, HTS Company Ltd. and Prism Petroleum Ltd. amalgamated under the name of Prism Petroleum Ltd.

3. PETROLEUM AND NATURAL GAS PROPERTIES

	1995		1994	
	Cost	Accumulated Depletion and Amortization	Net Book Value	Net Book Value
Petroleum and natural gas properties, including development thereon and production equipment	\$ 5,535,784	\$ 539,455	\$ 4,996,329	\$ 5,062,407
Other capital assets	<u>18,943</u>	<u>3,804</u>	<u>15,139</u>	<u>12,845</u>
	\$ 5,554,727	\$ 543,259	\$ 5,011,468	\$ 5,075,252

Certain petroleum and natural gas properties having a net book value of \$ 3,549,047 (1994 - \$ 3,877,469) for accounting purposes have a nil cost for income tax purposes.

During the year the Company capitalized \$ 28,517 (1994 - \$ 139,323) of consulting and overhead costs directly related to acquisition, exploration and development activities.

The cost ceiling, as described under Note 1(a) of these petroleum and natural gas properties was less than the capitalized costs of these assets. This deficiency substantially resulted from the purchase of probable as well as proven reserves in 1994 and is not considered to be a permanent impairment of the ultimate recoverable amount. As such, no write-down of petroleum and natural gas properties has been made.

PRISM PETROLEUM LTD.
(FORMERLY HTS COMPANY LTD.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

4. BANK INDEBTEDNESS

The Company has a \$ 250,000 revolving demand credit facility which bears interest at the prime bank rate plus 1½% per annum. As security for the facility the Company has provided a fixed and floating charge debenture over all of the petroleum and natural gas properties, a general security agreement covering all of the Company's assets and an assignment of production proceeds.

5. LONG-TERM DEBT

The debentures bear interest at prime plus 1½% and are secured by a fixed and floating charge debenture with a fixed charge over certain petroleum and natural gas properties and a floating charge over all of the assets of the Company. The agreement provides that the debentures, which have interest only payments for the first two years, will mature on November 24, 1999 and are repayable in aggregate semi-annual installments of \$ 116,665 commencing May 24, 1997. During the year ended December 31, 1995 the debenture holders granted a postponement of claim in favour of the bank (see Note 4).

6. CAPITAL STOCK

a) Authorized

Unlimited number of common voting shares of no par value

Unlimited number of preferred shares which may be issued in one or more series. The directors are authorized to fix the number of shares in each series and determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

b) Issued

	Number of Common Shares	Stated Value
Balance - December 31, 1993	4,166,664	206,035
Issued for petroleum and natural gas properties (see Note 8(d))	2,332,650	466,530
Issued for cash on public offering	18,500,000	3,700,000
Share issue costs	-	(480,022)
Issued for acquisition of subsidiary companies (see Note 2)	3,000,000	600,000
Issued for petroleum and natural gas properties	<u>500,000</u>	<u>100,000</u>
Balance - December 31, 1994	28,499,314	4,592,543
Issued on exercise of agent's option	<u>100,000</u>	<u>10,000</u>
Balance - December 31, 1995	<u><u>28,599,314</u></u>	<u><u>\$ 4,602,543</u></u>

c) Stock Options

The following options to purchase shares are held by directors, officers and employees of the Company as at December 31, 1995:

Number of Shares	Exercise Price Per Share	Expiry Date
333,328	\$ 0.10	June 30, 1998

PRISM PETROLEUM LTD.
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6. CAPITAL STOCK (Continued)

d) Agent's Option

During the year ended December 31, 1994 the Company completed an Exchange Offering Prospectus pursuant to which the agent was granted a non-assignable option to purchase 3,700,000 common shares at a price of \$ 0.20 per common share and is exercisable on or before November 24, 1996.

e) Escrow

As at December 31, 1995, 4,103,861 (1994 - 6,103,863) common shares are held in escrow by the transfer agent subject to the direction or determination of the relevant regulatory authorities.

7. INCOME TAXES

The provision for income taxes reflects an effective tax rate which differs from combined federal and provincial statutory tax rates. The main differences are summarized as follows:

	<u>1995</u>	<u>1994</u>
Loss before income taxes	\$(207,481)	\$(27,920)
Corporate tax rate	44.3%	44.3%
Calculated income tax provision	\$(91,914)	\$(12,368)
Increase (decrease) in taxes resulting from:		
Non-deductible depletion	145,491	26,161
Crown royalties and crown lease rentals	67,703	10,977
Realization of tax benefits not previously recognized	(18,661)	-
Alberta royalty tax credits	(22,845)	(4,259)
Resource allowance	(33,349)	(5,565)
Share issue costs	(46,425)	(46,425)
Future tax benefits not recognized	-	31,479
	<u>\$ -</u>	<u>\$ -</u>

The Company has incurred losses for income tax purposes of approximately \$ 258,000, the related benefit of which have not been recorded in the financial statements. Unless sufficient taxable income is earned, these losses will expire between 2000 to 2002.

As at December 31, 1995, the Company has available for deduction against future taxable income the following amounts:

		Annual Rate <u>of Claim</u>
Canadian oil and gas property expenditures	\$ 757,400	10%
Canadian development expenditures	\$ 139,500	30%
Canadian exploration expenditures	\$ 44,900	100%
Foreign exploration and development expenditures	\$ 18,300	10%
Capital cost allowances	\$ 274,300	20-30%
Unamortized share issue costs	\$ 308,300	20%

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8. RELATED PARTY TRANSACTIONS

- a) During the year the Company paid consulting fees to companies controlled by directors and officers of the Company totalling \$ 127,178 (1994 - \$ 44,884).
- b) During the year ended December 31, 1995, the Company purchased a petroleum and natural gas property from a director and officer for a total consideration of \$ 16,000.
- c) During the year ended December 31, 1994, the Company acquired various petroleum and natural gas properties from a related party for a total consideration of \$ 466,530 which was satisfied by the issuance of 2,332,650 common shares from treasury at an ascribed price of \$ 0.20 per share.
- d) During the year ended December 31, 1994, the Company engaged a related party to evaluate a number of potential petroleum and natural gas acquisitions and paid \$ 67,769 for these services.
- e) During the year ended December 31, 1994, the Company sold a petroleum and natural gas property to a related party for a total consideration of \$ 57,300.

9. CONTINGENCIES

- a) The Company has outstanding a letter of credit in the amount of \$ 25,000 which is due to expire June 2, 1996.
- b) A statement of claim has been issued against the three subsidiary companies that were acquired during 1994. In the opinion of management, the claim is without merit and no provision has been made for it in the accounts. In the event that this claim does succeed, the Company has received certain indemnifications from the vendors of the three subsidiary companies for any losses it may incur.

10. COMMITMENT

The Company's minimum annual rentals for office premises, exclusive of realty taxes and occupancy costs, in each of the next five years is \$ 11,250 per annum.

11. COMPARATIVE FIGURES

Certain 1994 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Directors and Officers

Herman S. Hartley
Chief Executive Officer,
Chairman of the Board and Director
Calgary, Alberta

Douglas H. Church
President and Director
Calgary, Alberta

Thomas F. Bugg
Director
Calgary, Alberta

Linette M. Kelly
Secretary, Treasurer
Calgary, Alberta

Corporate Information

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Calgary, Alberta T2P 3P4
Telephone: (403) 237-2396
Telecopier: (403) 266-5388

Registrar & Transfer Agent
The R-M Trust Company
Calgary, Alberta

Auditor
Michael A. Kociuba
Chartered Accountant
Calgary, Alberta

Stock Exchange Listing
The Alberta Stock Exchange
Symbol **PIM**

Banker
Canadian Imperial Bank of Commerce
Calgary, Alberta

SHARE PRICE RANGE

	High	Low
Fiscal 1994	\$0.35	\$0.15
First Quarter 1995	\$0.14	\$0.11
Second Quarter 1995	\$0.19	\$0.10
Third Quarter 1995	\$0.12	\$0.10
Fourth Quarter 1995	\$0.09	\$0.06

PRISM



1995